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# Strategic Online Communities: How Online Communities Facilitate Business Strategies to Enhance Organizational Performance

Barney C.C. Tan

*National University of Singapore, [barney@nus.edu.sg](mailto:barney@nus.edu.sg)*

Shan L. Pan

*National University of Singapore, [pansl@comp.nus.edu.sg](mailto:pansl@comp.nus.edu.sg)*

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# STRATEGIC ONLINE COMMUNITIES: HOW ONLINE COMMUNITIES FACILITATE BUSINESS STRATEGIES TO ENHANCE ORGANIZATIONAL PERFORMANCE

*Communautés stratégiques en ligne : comment les communautés en ligne facilitent la stratégie afin d'améliorer la performance organisationnelle*

*Completed Research Paper*

**Barney C.C. Tan**

National University of Singapore  
3 Science Drive 2, Singapore 117543  
[barney@nus.edu.sg](mailto:barney@nus.edu.sg)

**Shan L. Pan**

National University of Singapore  
3 Science Drive 2, Singapore 117543  
[pansl@comp.nus.edu.sg](mailto:pansl@comp.nus.edu.sg)

## **Abstract**

*Despite the optimism surrounding the business value of online communities (OCs), our knowledge of how OCs can be leveraged strategically to enhance the performance of the sponsoring organization is limited. To address this lack of knowledge, a theoretical lens is constructed by distilling the essence of strategic management literature into three logics of strategy that prescribe different means of improving organization performance. Applying this theoretical lens to analyze a case study of the most commercially successful OC in Singapore, a process model is inductively derived that depicts the various ways through which a OC can bring about better organizational performance under different contextual conditions. With the findings, this study contributes to the existing knowledge on the strategic implications of OCs, demonstrates the compatibility of the logics of strategy in specific conditions, and provides a framework for practitioners to analyze their investments in OCs.*

**Keywords:** Online communities, Organizational strategies, Firm performance, Case study

## Résumé

*Notre connaissance de la manière dont les communautés en ligne peuvent être encouragées afin d'améliorer la performance de l'organisation sponsor, reste à ce jour limitée. Au travers d'une étude de cas d'une communauté à succès de Singapour, un modèle processuel est induit afin de décrire comment une communauté en ligne peut engendrer une meilleure performance organisationnelle.*

## Introduction

At the dawn of the e-commerce era in the mid 1990s, online communities (OCs); defined as social aggregations motivated by common interest and formed through computer-mediated communications on the Internet (Rothaermel & Sugiyama, 2001), were widely predicted to effect a revolution in the global competitive landscape, and bring about rich organizational rewards for the firms that organize them (See, e.g. Armstrong and Hagel, 1996). Today, the phenomenal success of organizations such as eBay; which utilized its OC to sustain the credibility and viability of the peer review system that forms an integral part of their business model, Amazon; which used its OC to provide value-added product reviews for its customers, and Wikipedia; which leveraged its OC to generate and extend the depth and breadth of its content, firmly attest to the momentous potential of OCs for bringing about economic benefits for the sponsoring organization.

Yet, despite the prevalent optimism surrounding the economic potential of OCs (see, e.g., Sangwan, 2005; Ma & Agarwal, 2007) and the extraordinary success of a select few, most OCs have, in fact, failed to deliver any form of financial returns (Balasubramaniam & Mahajan, 2001). We contend that the failure of the majority of organizations to translate their investments in OCs into economic gains may be attributed to a lack of knowledge on how OCs may be used to support the business strategies and enhance the organizational performance of the sponsoring organization. This lack of knowledge, in turn, stems from a number of important gaps in the existing OC literature: (1) The inappropriate use of participation or membership size as proxies for OC success, (2) the neglect of technology-strategy alignment, and (3) the lack of empirical validation for existing prescriptions on the strategic use of OCs.

Given that an OC is a “double-edged sword” that has the potential to bring about both rich rewards and calamitous consequences (see, e.g. Preece, 2001; Walden, 2000), the knowledge of how to leverage OCs strategically is crucial if the full economic potential of nurturing an OC is to be realized, and if the potential pitfalls are to be avoided. Using a case study of ITC (a pseudonym), an organization that runs one of the biggest and most commercially successful OC in Singapore, this paper endeavors to uncover how OCs may be used to support the strategic initiatives of an organization. In doing so, this study hopes to advance the state of knowledge on the economic and strategic implications of OCs by examining the underlying mechanism through which OCs can effect performance gains for the sponsoring organization, and provide a useful reference for practitioners on how to maximize the returns from their investments in OCs.

Specifically, this study aims to answer two research questions that are as yet unanswered in the existing literature: (1) How do OCs support the business strategies of an organization? and (2) How do OCs enhance the organizational performance of the sponsoring organization? For this study, we use the term “sponsoring organization” to refer to the firm that subsidizes and manages the OC. In addition, as the scope of this study is limited to the economic and strategic implications of OCs for profit-oriented firms, organizational performance is defined as the financial and market performance of the organization (Langerak et al., 2004).

The first section of this paper has established our motivation and the research questions we intend to answer. In the following section, we review the relevant literature to construct the foundation for our subsequent theoretical arguments. The research methodology is then presented in the third section, followed by a description of the events that transpired at ITC in the fourth section, so that the reader may follow the process of theory building (Klein and Myers, 1999) and judge the validity of the developed theory based on the cogency and plausibility of the underlying logic (Walsham, 1995). The fifth section of the paper presents the theoretical arguments inductively derived from the ITC case, before a discussion of the theoretical and practical implications of our findings in the concluding section of the paper.

## Literature Review

### *Existing Perspectives on Online Communities*

The emergence of Internet technologies facilitated the creation of the first OCs by enabling communications and interactions that transcend the physical limits of time and space (Sangwan, 2005). The earliest research on OCs viewed OCs as a social phenomenon, and accordingly, focused heavily on the sociological aspect of OCs (Lee et al., 2005) such as the factors that affect an individual's willingness or unwillingness to participate (Romm et al., 1997). It was not until the mid 1990s when the idea was first raised that an OC (Armstrong and Hagel, 1996) can be used as a powerful business tool to tap into the collective intelligence of employees, customers, and outsiders; transforming the basis of competition to create competitive advantage and economic gains for the sponsoring organization.

The idea has since caught on and today, the literature on OCs is replete with enthusiastic prognostications of its business potential: Beginning with Armstrong and Hagel's (1996, p.135) declaration that "*commercial success in the on-line arena will belong to those businesses that organize electronic communities*", to Rosenoer et al.'s (1999, p.107) pronouncement that OCs are "*ripe with commercial opportunity*", and more recently, Ma and Agarwal (2007, p.42)'s assertion that "*communities can be a significant source of value... for the subsidizing firm*". Yet, despite the optimism surrounding the economic potential of OCs that persists to date, the reality is that most OCs have failed to bring about any form of commercial success (Balasubramaniam and Mahajan, 2001; Sangwan, 2005). A review of the existing literature on OCs reveals a number of important gaps that offers an explanation for why this may be so.

First, as it is difficult to directly attribute any form of performance gains to an OC due to the inherent complexities of both the phenomenon and the organization (Lee et al., 2005), an overwhelming majority of the existing OC literature have used activity indicators or membership size as proxies for OC success, and focused accordingly on identifying the factors that increase member satisfaction, participation or knowledge contribution in an OC. For example, the factors that have been identified to be salient to increasing participation in an OC include the use of offline communications, member experience, perceived value of site management, perceived value of site content (Rothaermel and Sugiyama, 2001), reputational benefits, degree of altruism, network centrality, self-rated expertise, commitment to the community, the level of reciprocity (Wasko & Faraj, 2005), and perceived identity verification (Ma & Agarwal, 2007).

The implicit assumption of this stream of research is that a vibrant OC that has attained self-sustaining critical mass will necessarily bring about economic gains for the sponsoring organization (see, e.g. Sangwan, 2005). Yet, the problem with this approach is that large membership size or high activity rates are not necessarily indicative of a commercially successful OC. Large communities may suffer from negative network externalities (Gu et al., 2007) and empirical evidence have revealed that even large, vibrant communities may struggle to establish financial viability (Balasubramaniam & Mahajan, 2001). More importantly, given that the size of an OC can amplify both the positive and negative consequences of running the OC; as the account of Intel's US\$1 billion chip recall attests (See Walden, 2000), it is evident that participation or OC size per se cannot be equated with commercial success.

Second, a large number of existing OC studies has adopted a production-orientation, emphasizing the technical dimension of OCs rather than its alignment with the broader business objectives of the organization. This stream of research typically advocates the importance of technical features such as dialog and social interaction support, information design, ease of navigation, extent of network access (Preece, 2001), trust-supporting components (Leimeister et al., 2005), personalization functionality (Schubert & Ginsburg, 2000), and the presence of various community Information Technology (IT) artifacts (Ma & Agarwal, 2007).

The core premise of this stream of research is that an OC hosted on a well-designed technical platform with adequate technological support for usability, sociability, trust-building and personalization, will necessarily translate to commercial success for the sponsoring organization. Yet, it has repeatedly asserted that competitive advantage rarely stems from technical excellence alone. To bring about economic gains for the sponsoring organization, an OC must also be closely aligned with the business objectives of an organization (Powell and Dent-Micallef 1997, Henderson and Venkatraman 1999).

Third, to the best of our knowledge, of the handful of studies in the literature that offers prescriptions on how OCs may be strategically leveraged for economic returns, all of them are conceptual in nature with no empirical evidence offered to substantiate their propositions. While the discourse on the necessity of fit between the OC model and the

e-business model (Lee et al., 2005), the level of site management, (Rothaermel & Sugiyama, 2001), the level of community control (Walden, 2000), and the necessity of integrating economic and social exchange processes (Balasubramaniam & Mahajan, 2001), certainly offers plenty of food for thought for organizations and practitioners that manage OCs, there is a pressing need for empirically validated theories if our knowledge of the strategic and economic implications of OCs is to be advanced.

Collectively, the inappropriate use of participation or membership size as proxies for commercial OC success, the neglect of technology-strategy alignment, and the lack of empirical support for the emerging studies on the strategic use of OCs indicate an incomplete understanding on how OCs may be used strategically to enhance the organizational performance of the sponsoring organization. More importantly, this lack of knowledge may account for the inability of the majority of OC managers and practitioners to leverage their investments in OCs for economic returns. To address the gaps in the existing literature and provide indications to practice on how to make the most of their investments in OCs, this article aims to shed light on the different ways through which OCs can support business strategies to bring about improved performance for the sponsoring organization.

Our search for answers necessarily begins with a review of the existing prescriptions in the literature for enhancing organizational performance. To this end, we narrow the focus of our review to strategic management literature, which is an obvious starting point for our inquiry since the academic discipline is primarily concerned with enhancing performance through the use of deliberate and emergent organizational initiatives (Nag et al., 2007).

### ***The Three Core Logics of Strategy***

Although a myriad of theories that prescribe strategies for creating superior firm performance exists in strategic management literature; and the intricacies of each strategy are certainly beyond the scope of a single paper, the essence of the majority of these strategies can be distilled into three distinct logics (Eisenhardt & Sull, 2001; Sambamurthy et al., 2003). The three core logics of strategy are summarized in the Table 1.

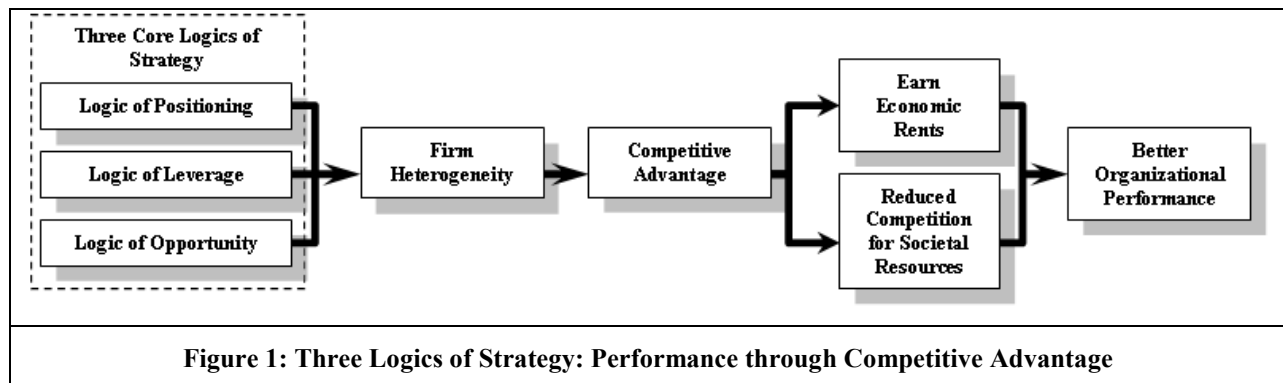
<b>Table 1: The Three Core Logics of Strategy</b>			
	<b>Logic of Positioning</b>	<b>Logic of Leverage</b>	<b>Logic of Opportunity</b>
<b>Examples of Theories</b>	<b>Competitive Forces Framework</b> (See Porter, 1980; 1985; 1996)	<b>Resource-Based View</b> (See, Barney, 1991; Peteraf, 1993)	<b>Dynamic Capabilities</b> (See, Teece et al., 1997; Eisenhardt & Martin, 2000) / <b>Hypercompetition</b> (See, D'Aveni, 1994; Eisenhardt & Sull, 2001)
<b>Core Tenets</b>	<ul style="list-style-type: none"> <li>• Systematic consideration of environmental forces</li> <li>• Identification of attractive market position</li> <li>• Occupy and defend position through a tightly integrated activity system</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of strategic (Valuable, Rare, Inimitable and Non-substitutable) resources and capabilities</li> <li>• Develop and leverage strategic resources</li> </ul>	<ul style="list-style-type: none"> <li>• Use of dynamic capabilities that allow managers alter their resource base in dynamic environments to generate new value-creating resource configurations</li> <li>• Use of creative and unconventional means to deliberately disrupt the existing business paradigms in the competitive environment and foster radical transformations in the rules of competition over and over again</li> </ul>
<b>Source of Competitive Advantage</b>	<ul style="list-style-type: none"> <li>• Avoiding environmental threats and exploiting opportunities associated with market position</li> </ul>	<ul style="list-style-type: none"> <li>• Unique value proposition as a result of firm-specific resources and capabilities.</li> <li>• Competitive advantage is sustainable if the resources can be protected from imitation.</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid sense-and-respond capabilities that allows an organization to recombine existing assets and competencies to form new value propositions to keep competitors off balance.</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• Adopt aggressive measures to cause fundamental instability and create a unique and unconventional basis for competing</li> </ul>

At first glance, the advocacies of each of these logics of strategy are evidently different. Prior studies have, in fact, suggested that some of these logics are inherently incompatible and any attempts to combine incompatible logics within a single strategy will create confusion and inconsistency of purpose (Lengnick-Hall and Wolff, 1999). Yet, as

we move on towards examining how each of these logics brings about performance gains, we find a striking similarity in the proposed mechanisms for improving organizational performance. The important commonality between the three logics of strategy lies in their advocacy of differentiation. As an illustration, Porter (1996 p.62); arguing for the logic of positioning, asserted that *“A company can only outperform rivals only if it can establish a difference that it can preserve”*. Similarly, the Resource-Based View of the firm (see, e.g., Barney 1991); representative of the logic of leverage, advocates that the exploitation of firm-specific resources gives rise to sustainable performance gains only if they are imperfectly imitable and non-substitutable. Likewise, Eisenhardt and Sull (2001 p.116) reiterated this notion while describing the strategy of “simple rules” based on the logic of opportunity with the emphatic statement: *“Like all effective strategies, strategy as simple rules is about being different”*.

Differentiation refers to the act of offering a product or service that is perceived to differ from its competitors’ offering on any physical or non-physical characteristic including price (Dickson and Ginter, 1987). Through differentiation, a unique value proposition is created as the firm selects, and adds value to a dimension of its product and services that its customers perceive to be important (Porter, 1985). The three logics of strategy thus represent three different ways of rationalizing differentiation: differentiation as a result of exploiting the opportunities and avoiding the threats associated with a unique strategic position, differentiation as a result of leveraging strategic resources and capabilities, and differentiation as a consequence of continuous innovation or rapid adaptations to the fast-changing external environment.

By offering differentiated value along the dimensions of a firm’s products or services that customers perceive to be important, competitive advantage; defined as a unique value-creating strategy not simultaneously being offered by existing or potential competitors (Barney, 1991), is achieved. Widely regarded as the holy grail of strategic management literature (Collis, 1994), competitive advantage is the key to better organizational performance as it enables the firm to charge economic rents for its product and services as it is able to avoid market competition or even create a local monopoly (Deephouse, 1999). In addition, following the assumption that firms occupying the same organizational niche compete for the same societal resources necessary for survival, being different allows the firm to avoid the competition for these societal resources. This makes it easier to acquire these factors and consequently, improve the probability for organizational survival (Baum & Singh, 1994). An overview of the three logics of strategy and the proposed mechanism through which better organizational performance is achieved is provided in Figure 1.



The three logics of strategy forms a theoretical lens that depicts three different mechanisms that OCs can potentially support to enhance the performance of their sponsoring organization. Applying this theoretical lens to analyze the events that transpired at ITC, we will examine the viability of each of the possible mechanisms under different contextual conditions to address the research questions set forth at the beginning of the paper. Our research methodology is described next.

## Research Methodology

The case research methodology was utilized for this study. Case research is particularly appropriate for the purpose of this study as we are interested in “how” OCs improve the performance of their sponsoring organizations (Walsham 1995). In addition, a commercial OC run by a for-profit organization comprises of a social, a technological and a business dimension. Therefore, the inherent multi-dimensional complexity of the phenomenon

makes it unlikely to be based on an objective reality, making it more appropriate to examine the phenomenon by interpreting the shared understanding of the relevant stakeholders (Klein and Myers 1999).

Based on our research question, we develop two conditions for our case selection criteria. First, the case organization selected for this study must have, of course, successfully leveraged its OC for economic gains. Second, successful leverage of the OC must be accomplished in a variety of ways as it allows us to identify a wider array of possibilities for improving organizational performance through OCs. The case of ITC; an e-business in the IT publications industry in Singapore, is particularly appropriate for our purpose as its OC was used to facilitate a number of business strategies that transformed ITC from a humble e-commerce startup to the dominant market leader within a short span of nine years. In addition, an important benefit of studying how an OC is leveraged in a number of different ways from a single organization is that the many contextual variables are kept constant, which helps to rule out possible alternative interpretations of the data.

Research access was negotiated and granted in September 2005, and a total of 19 interviews were conducted with key members of ITC's management, staff, and OC over a period of one and half years. The longitudinal nature of the study facilitated both a comprehensive study of past events, activities and decisions, as well as an opportunity to directly observe existing practices, strategy formulation and execution within the organization over an extended period of time. Each interview; which took an average of one hour, was recorded on tape and later transcribed for data analysis. To allay any fear of speaking due to the presence of the tape recorder, we assured every interviewee of the confidentiality and anonymity of the data collected, especially when potentially sensitive information is sought (Walsham, 2006). The questions asked were open-ended, exploratory in nature, and tailored to the role of the person interviewed. Each question was designed to be non-leading, yet at the same time non-passive to maintain a balance that allows for both control of the interview and spontaneity (Walsham, 1995). Data from the interviews were supplemented by newspaper articles, company brochures, internal publications, and information from the corporate website. Notes from direct observation were also used to corroborate the data obtained.

Data analysis was performed concurrently with data collection to take advantage of the flexibility that the case research methodology affords (Eisenhardt, 1989). Prior to data collection, a literature review was first conducted to identify the existing prescriptions for enhancing organizational performance. From our review of strategic management literature, an initial theoretical lens was constructed using the three logics of strategy, which served as a "*sensitizing device*" (Klein and Myers, 1999, p.75) that hinted at the possible ways through which OCs may bring about performance gains for the sponsoring organization. Data analysis was then carried out by moving back and forth between empirical data, the theoretical lens, relevant literature and the emerging theory (Walsham, 2006).

First, we used a combination of a temporal bracketing strategy, a narrative strategy and a visual mapping strategy (Langley 1999) to organize the empirical data. Notes taken during each interview were first organized into themes after each field visit (Walsham 2006). The initial set of themes was developed according to the propositions of our theoretical lens, but was modified incrementally whenever new findings that challenged the existing schema emerged. Every finding that emerged was verified to ensure that it was supported by at least two sources of data (Klein and Myers 1999). Based on these notes and the secondary data obtained, the events that transpired at ITC were divided into three distinct phases to facilitate the examination of how OCs effect performance gains in different contextual conditions.

Next, a detailed narrative and several visual maps summarizing the key events, activities and decisions that occurred at ITC were created to condense the voluminous amount of data into a more manageable form (Langley, 1999). The narrative and the visual maps were compared with the theoretical lens and the relevant literature to shape our emerging theoretical ideas. These theoretical ideas were then captured in various diagrammatic sketches. The narrative, the visual maps, and the sketches were then verified with the relevant stakeholders at ITC to validate our interpretation of the data and the emerging process theory. This process continued until the state of theoretical saturation is reached; where it was possible to comprehensively explain the findings of the case studies and no additional data can be collected, developed or added to improve the developed model (Eisenhardt 1989).

## Case Description

### **Organizational Background**

According to a Nielsen/NetRatings survey conducted in 2006, ITC is the most popular technology website in Singapore with an average of 330,000 unique browsers per month. Although the business of ITC is primarily centered on providing news and information about the latest IT products, ITC also provides numerous member-centric services such as consolidated price lists of the major IT vendors in Singapore, a classified ads directory to facilitate the trading of IT products online, and an online discussion forum that serves as the basis for its OC. Incidentally, the online classifieds directory and the OC organized by ITC were also ranked top of their respective categories in the same study, attracting approximately 165,000 and 200,000 unique visitors per month respectively.

ITC began as a mere hobby for its founders on a US\$650 budget. Yet, within six years of its inception, ITC became the market leader in the Singaporean IT publications industry, capturing 29.7 % of the market share in 2004. In comparison, CNET Asia, in second place, only had a 9.9% market share. ITC's achievements are considerable given that Singapore, with its small domestic market, is a country where e-commerce success tends to be the exception rather than norm. The unprecedented success of ITC prompted the most widely circulated business newspaper in Singapore to compare its two founders to Sergey Brin and Larry Page of Google, enthusiastically proclaiming ITC's founders as "Singapore's very own Google Guys".

The initial manifestation of ITC was an online community of interest (COI) hosted under the umbrella of SingaporeOne, a public initiative aimed at promoting e-commerce in Singapore. The COI catered primarily to the needs of a niche community of CPU overclockers, allowing members to post their hardware configurations and overclocking results in an online discussion forum. Although the CPU overclockers community was relatively small, the COI generated such heavy web traffic that it throttled SingaporeOne by taking up 90% of the parent site's total bandwidth within a month of its inception. Unable to cope with the traffic that the COI was generating, the management of SingaporeOne had no choice but to dissolve the OC.

Endorsed by the management of SingaporeOne, the founders of ITC applied for and were eventually awarded a US\$13,000 grant by the Infocomm Development Authority of Singapore; a public agency whose mission is to promote and develop the IT industry in Singapore. With this grant, ITC was founded on August 9, 1998 in a small factory space measuring four by six meters, running on office equipment contributed by friends and family members. At this point in time, ITC was running on empty; the initial capital was only sufficient for one web server and six months of bandwidth charges.

### **Building the ITC Brand (Late 1998 – Late 1999)**

At the time of ITC's founding, the Singaporean IT publications industry was in a state of market saturation. Yet, the experience gained from running the COI made the founders of ITC realize that there was an unmet need in the IT publications industry. One of ITC's founders described this critical insight:

*"Based on the feedback we were getting (from the members of COI), we realized that the foreign publications do not meet their needs because the content is not meant for the local audience. For example, the products reviewed in these publications are often unavailable locally, the prices may be outdated or listed in US dollars. And the main problem with the local IT publications is that although their contents are localized, they are usually not comprehensive because they lacked funding, which comes with credibility and market reach."*

Based on this revelation, ITC moved quickly to exploit the opportunity by positioning themselves as a comprehensive provider of free, localized IT content. A positioning strategy; with an emphasis on establishing a unique value proposition, was employed by ITC during the period. An overview of the strategic objectives of ITC, the positioning strategy, and the various ways that ITC's OC supported the positioning strategy are summarized in Table 2.

The unique value proposition of ITC allowed the organization to establish itself as an immensely popular technology website that provided the latest reviews, pricing and availability information of IT products in Singapore. By 1999, official membership for their OC had exceeded 40,000 with a webpage impression count of over 16 million per



month, while online advertising revenue soared to around US\$200,000 per annum. Up to this point in time, ITC had been a resounding success, but new challenges were just about to emerge.

<b>Table 2: Strategy Employed by ITC (Late 1998 – Late 1999)</b>	
<b>Environmental Conditions</b>	<ul style="list-style-type: none"> <li>- Content of foreign publications are generated for the US or European audience and do not adequately meet the needs of local IT enthusiasts</li> <li>- Local IT publications are often perceived to be not credible and do not provide a comprehensive coverage of local IT products</li> </ul>
<b>Strategic Objectives</b>	Create a unique value proposition as compared to: <ul style="list-style-type: none"> <li>- <b>Foreign Publications:</b> By producing content that was catered to the local IT market</li> <li>- <b>Local Publications:</b> By providing comprehensive, credible coverage of local IT products</li> <li>- <b>Printed Publications:</b> By providing content at no charge</li> </ul>
<b>Strategy Employed</b>	<b>Positioning of ITC as a comprehensive and credible provider of free, localized IT content:</b> <ul style="list-style-type: none"> <li>- Establish a hardware testing laboratory to generate proprietary, credible content.</li> <li>- Provide content for free and depend solely on online advertising to achieve cost advantage over printed magazines</li> <li>- Form strategic alliances with major IT vendors to ensure that their content was comprehensive and up to date</li> <li>- Nurture strong sense of community among OC members</li> </ul>
<b>How OCs supported the strategy of ITC</b>	<ul style="list-style-type: none"> <li>- Insight on the unmet need in the market came from feedback from its OC</li> <li>- High interactivity established in the OC made it difficult for competitors to imitate its business model</li> <li>- Members of OC contributed relevant, cutting edge tech stories that influenced content of ITC</li> <li>- Members of OC helped to develop a content management system that revolutionized the content generation process at ITC</li> </ul>

### ***Extending the Range of Products and Regionalization (Early 2000 – Late 2004)***

The advent of the dotcom crisis, which coincided with the peak of the Asian Financial Crisis in early 2000, plunged the Singaporean IT publications industry into great turmoil and uncertainty. As ITC was a “*pure play*” dotcom that depended primarily on online advertising for revenue, the dotcom crisis affected ITC severely. In addition, with the initial success of ITC, new competitors that sought imitate ITC’s e-business model were emerging in the industry. Particularly troubling to the ITC management was the news that several local IT vendors, some of whom used to be ITC’s partners in the past, were now eyeing its lucrative business.

Faced with new challenges, the management of ITC realized that the rules of competition in the Singaporean IT publications industry had fundamentally changed, and that the organization must adapt in order to remain competitive. A senior executive at ITC described the new insight:

*“With the dotcom crisis, we realized that online advertising revenue is not longer reliable, and our dependence on a single revenue stream from a single market made the company vulnerable to any form of turbulence that affected that particular source of income.”*

Based on this insight and an extensive analysis of the existing market, three strategies that focused on creating new streams of revenue while maintaining the competitive advantage over their competitors were employed by ITC to bring financial stability to the organization. Table 3 provides a summary of the new strategic objectives of ITC, the three strategies, and the different mechanisms through which ITC’s OC facilitated the attainment of its new strategic objectives.

The new strategies were instrumental to sustaining ITC’s profitability during the dotcom crisis and in the immediate years after. Through these strategies, official membership figures of its OC exceeded 100,000, while annual advertising revenue from both online and offline channels surged to an estimated US\$2.6million by 2004. The General Manager of ITC attests to the significant role that the OC played in the success of ITC’s reverse clicks-and-mortar and product line extension strategies during this period:

*“When we went into print, we depended on our community to form the initial readers of the magazine... (In addition,) the new gaming and digital photography products all began as special interest groups in our forum...”*

### ***Diversification into New Industries (Early 2005 – Present)***

The recovery of online advertising, as well as the declining rate and magnitude of change evident in the Singaporean IT publications industry signaled the end of the dotcom crisis as the competitive landscape returns to a state of normalcy. Having established a firm dominance, ITC today is seeking to move beyond IT and its related products and diversify into other industries. A senior executive at ITC described the rationale for diversification:

*“We have reached a point in the IT market where if we want our market share to grow further, we will have to invest a whole lot more (proportionately). So it makes more sense for us to invest what it would have taken to grow our market share by a little, in other markets like golf or cars...”*

**Table 3: Strategies Employed by ITC (Early 2000 – Late 2004)**

<b>Environmental Conditions</b>	<ul style="list-style-type: none"> <li>- Analysis of local IT publications industry reveals an untapped segment of “conservative” advertisers who were resistant to advertising online</li> <li>- Instability of online advertising as a revenue stream during the dotcom crisis</li> </ul>	<ul style="list-style-type: none"> <li>- Contextual conditions in regional markets were similar to that of Singapore’s prior to the inception of ITC</li> <li>- Potential for creating revenue streams from new markets</li> </ul>	<ul style="list-style-type: none"> <li>- Interest in products signaled by OC members. Existing OC members form ready demand for the new products.</li> <li>- “Natural progression” for an IT publication like ITC</li> <li>- Potential for creating revenue streams from new products</li> </ul>
<b>Strategic Objectives</b>	Creating new streams of revenue while maintaining the competitive advantage over: <ul style="list-style-type: none"> <li>- <b>Foreign Publications:</b> By creating new regional and IT-related products with localized content</li> <li>- <b>Local Publications and New Entrants:</b> By extending the product range and entering new markets</li> </ul>		
<b>Strategies Employed</b>	<b>Reverse Clicks-and-Mortar:</b> <ul style="list-style-type: none"> <li>- Going into print with the publication of a printed magazine</li> <li>- Making the content of the website and the printed magazine complementary</li> </ul>	<b>Regionalization:</b> <ul style="list-style-type: none"> <li>- Launch of localized, regional versions of the website and printed magazine in. Malaysia, Thailand, Indonesia, Philippines, Australia</li> </ul>	<b>Product Line Extension:</b> <ul style="list-style-type: none"> <li>- Launched new online and printed products for PC gaming, console gaming and digital photography</li> </ul>
<b>How OCs supported the strategies of ITC</b>	<ul style="list-style-type: none"> <li>- OC formed initial seed readership of new magazine, making the new printed magazine the best-selling IT magazine in Singapore within months of its inception</li> </ul>	<ul style="list-style-type: none"> <li>- Members of the existing OC from the regional countries that ITC was expanding into were invited to join the OCs established for the new regional products to help increase demand.</li> </ul>	<ul style="list-style-type: none"> <li>- Diversification to IT-related products was influenced by the demand of its customers</li> <li>- OC members developed a working prototype and a content management system for their new products</li> <li>- Existing OC used to create demand for new products</li> </ul>

ITC’s latest strategic objectives, its diversification strategy, and the different ways that ITC’s OC facilitated the diversification strategy are summarized in Table 4. The Managing Director of ITC elaborated on the role the OC played in influencing the choice of industries for diversification:

*“When people join a community and they identify with it, they start to talk about everything under the sun including cars, travel... so we looked at their posts and we realized that ‘Hey, there is a need here and hey, there is a need there’ and we slowly evolved... We looked at our (membership) database and who did we have? We had (mainly) guys, who are IT professionals, engineers... slightly ‘richer’ people who can afford your SLRs and your videocams... who travel, aspire to own cars... and are starting to pick golf...”*

**Table 4: Strategy Employed by ITC (Early 2005 - Present)**

<b>Environmental Conditions</b>	<ul style="list-style-type: none"> <li>- Little room for sustained growth in the IT publications industry</li> <li>- Existing OC members were mainly young, male professionals with above-average incomes, likely to be interested in products such as cars, golf and travel.</li> </ul>
<b>Strategic Objectives</b>	Sustain growth by diversifying into different industries and maintain ITC’s competitive advantage over: <ul style="list-style-type: none"> <li>- <b>Existing Competitors in IT Publications Industry:</b> By cross-marketing new products to existing customers to derive synergistic benefits between its businesses.</li> <li>- <b>Potential Competitors in New Industries:</b> By leveraging its existing resources and know-how gained from the experience of running ITC</li> </ul>
<b>Strategy Employed</b>	<b>Diversification into Radically Different Industries:</b> <ul style="list-style-type: none"> <li>- Launch of an online-offline <b>automobile</b> publication</li> <li>- Launch of an online-offline <b>golf</b> publication</li> <li>- Launch of a printed <b>travel</b> magazine</li> </ul>
<b>How OCs supported the strategy of ITC</b>	<ul style="list-style-type: none"> <li>- Strategic positions adopted in new industries were identified based on the perceived needs of the existing OC</li> <li>- Members of existing OC leveraged to create demand for new products</li> </ul>

To get the new ventures off to a quick start, ITC is once again leveraging its existing OC as a promotional tool to create awareness and form a ready base of customers for their new products. Advertisements and links to its new websites are placed prominently in the existing ITC website and discussion forums, while existing publications were bundled with the new publications to boost their initial circulation. Members of the existing OC were also invited to join the OCs created for their latest ventures in an attempt to recreate the success of ITC.

From the results of the 2006 Nielsens/NetRatings survey and the sustained growth of ITC's revenue, ITC's diversification strategy is proving to be the latest in a line of successful strategies that continues to propel the organization forward. The success of ITC attracted the attention of a number of potential investors, and ITC was eventually acquired by Singapore Press Holdings Limited; the leading media organization in Singapore, on September 29th 2006 for US\$4.6 million.

## **DISCUSSION**

### ***Defining Three Distinct Phases of ITC's Evolution***

A preliminary analysis of our data revealed that the business objectives of ITC was centered on (1) positioning itself as a comprehensive provider of free, localized IT content prior to the dotcom crisis, (2) extending its product line and going into regional markets during and in the immediate aftermath of the dotcom crisis, and (3) radically diversifying into golf, cars and travel publications after the dotcom crisis. As ITC's OC was leveraged differently in each of these temporal phases, we had to distinguish between the phases in order to examine the different contextual conditions in which the OC was used. As ITC's evolving organizational objectives clearly involved different product-market alternatives in each temporal phase, the Product-Market Growth Matrix (Ansoff, 1958) provides a useful framework for distinguishing between the three phases.

Prior to the dotcom crisis (Late 1998 – Late 1999), ITC's objective was to attain a strategic position within the IT publications industry and defend that position from existing and potential competitors. Accordingly, this temporal phase may be categorized as a Market Penetration phase as the localized, IT content they generated was their original product and their aim was to increase revenue and market share in the IT publications industry; the first industry they entered. During and in the immediate aftermath of the dotcom crisis (Early 2000 – Late 2004), the reverse clicks-and-mortar and the product line extension strategies served to bring products with new and different characteristics; including a printed IT magazine, and online-offline publications related to computer gaming, console gaming and digital photography, to their existing market. In addition, the regionalization strategy sought to bring their existing product into new regional markets. This temporal phase may therefore be classified as a Product/Market Development phase. Finally, as the Singaporean IT publications industry (Early 2005 – Present) returns to normalcy, ITC's strategies were to enter the motoring, golf and travel publications industry and position themselves as a comprehensive content provider in the respective industries in an attempt to replicate what they have achieved in the IT publications industry. This constitutes the development of new products targeted at vastly different markets and accordingly, we categorized this phase as a Diversification Phase.

By conceptually distinguishing between the three temporal phases, the different ways through which the OC was leveraged to bring about better performance for ITC may be contrasted across the different contextual conditions. In the next stage of our data analysis, we examine the events, activities and decisions that transpired in each phase of ITC's evolution to investigate how OCs were specifically utilized in each phase. We organize our findings according to the temporal sequence of the phases and present them accordingly in the subsections that follow.

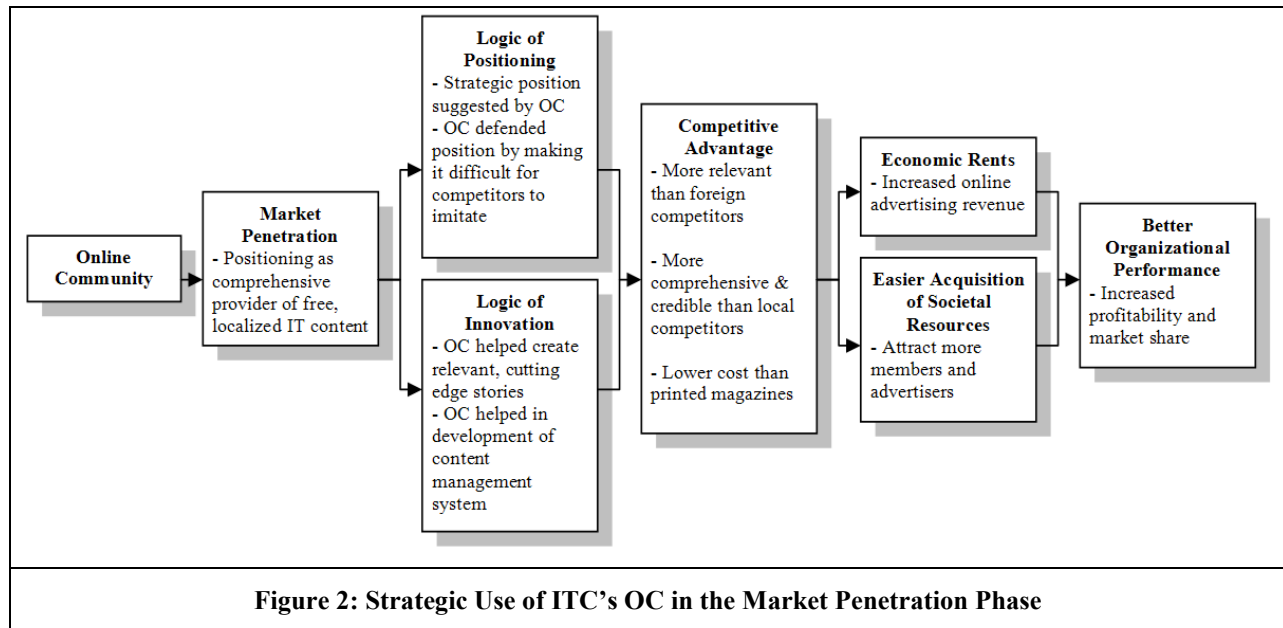
### ***Market Penetration Phase (Late 1998 - Late 1999)***

In the market penetration phase, ITC's OC was used to support a positioning strategy that sought to establish ITC as a comprehensive provider of free, localized IT content. This enabled ITC to achieve competitive advantage through two key mechanisms. First, the OC facilitated a logic of positioning in that ITC was steered into the strategic position they eventually adopted; and the corresponding opportunities related to that strategic position, based on the feedback they received from their OC. Despite the state of market saturation in the IT publications industry at the time, ITC was able to identify an unmet need of the local IT enthusiasts based on the feedback received from the members of COI and they quickly adopted the needs-based strategic position (Porter, 1996) that enabled them to fulfill this unmet need. In addition, the measures adopted by ITC to create a high level of interactivity and a sense of belonging in the OC made it difficult for existing and potential competitors to imitate their strategic position (Porter, 1996). This is because adopting a similar position would necessitate an equally active OC, which they were unable to recreate when ITC cemented their position as the de facto community for IT enthusiasts in Singapore.

Second, the OC facilitated a logic of innovation by serving as the source of new content and revolutionizing the content generation process. By involving the OC in the process of content generation, ITC was able to monitor the

evolving needs of the local IT enthusiasts, and act quickly and decisively to ensure that their content remained perpetually relevant to those needs (Lengnick-Hall & Wolff, 1999). Further, the content management system developed with the help of some members of the OC also served as the basis of a dynamic capability (Eisenhardt & Martin, 2000) that enabled ITC to deliver its content to its consumers in a more timely fashion.

Through the two mechanisms, ITC attained competitive advantage as their localized content was more relevant than their foreign counterparts while their coverage of local IT products was more comprehensive and perceived to be more credible than the local publications. In addition, because the content of ITC came at no cost to the consumers, a critical competitive advantage was formed over the printed IT magazines. ITC's unique value proposition helped to attract more advertisers and members for its OC, which were two crucial societal resources necessary for ITC's survival (Baum & Singh, 1994). The competitive advantage attained also led to economic rents (Deephouse, 1999) in the form of the increased advertising revenue. Figure 2 summarizes how ITC's OC was used to facilitate its positioning strategy in the market penetration phase to improve the organizational performance of ITC.

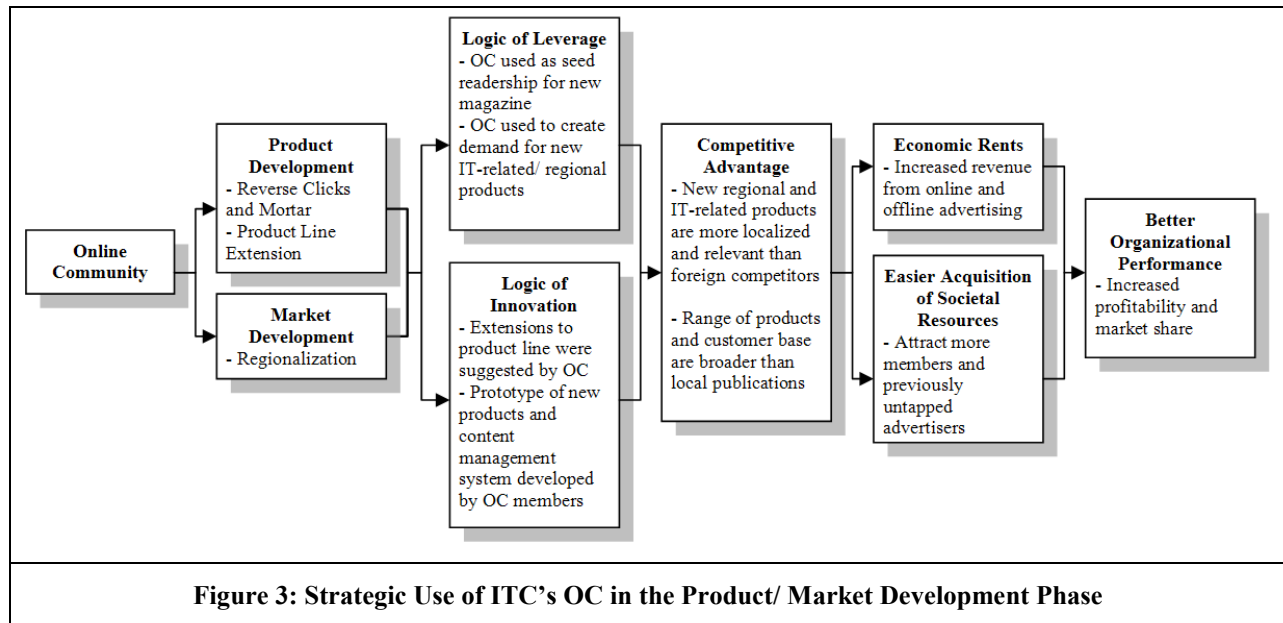


### ***Product/ Market Development Phase (Early 2000 – Late 2004)***

During the product/ market development phase, the importance of ITC's OC in facilitating its new strategies was evident yet again. In particular, the OC supported its product and market development efforts through two strategic mechanisms. First, the community was used to facilitate a logic of leverage. For its reverse clicks-and-mortar strategy, measures were first used to cultivate a sense of ownership for the planned magazine within the OC. The strong sense of ownership for the magazine provided an avenue to use the OC as a strategic resource (Barney, 1991), which was subsequently leveraged to create a strong initial demand for the product. This allowed the printed magazine to get off to a running start at the time of its launch and achieve market leadership among printed IT magazines within months of its inception. Similarly, for the product line extension and regionalization strategies, aggressive promotional activities for the new IT-related and regional products were carried out in the OC to create awareness, which similarly resulted in heightened demand for the new products.

Second, ITC's OC supported a logic of innovation by serving as the basis of a dynamic capability (Teece et al., 1997; Eisenhardt & Martin, 2000). The OC provided ITC with a constant stream of feedback, which allowed the organization to closely monitor the evolving needs and wants of its customers, quickly identify any emerging opportunities, and act quickly in response to these opportunities (Lengnick-Hall & Wolff, 1999). Attesting to the integral contribution of the OC to the rapid sense-and-respond capability of ITC, it is notable how the OC provided the impetus for its ITC's new gaming and digital photography products. The OC not only provided strong indications that these products are desired and would be well-supported, but some members of the OC were also actively participating in the creation of prototypes, as well as the content management system, for the new products.

The two strategic mechanisms led to competitive advantage over their key competitors. On one hand, when compared to local publications and the group of new entrants who were looking to imitate their e-business model, ITC's reputation, credibility and range of product offerings were greatly enhanced as it was able to quickly establish a high circulation for their printed magazine, launch a series of new IT-related products that came with a ready demand, and broaden their customer base with their entry into regional markets. On the other hand, when compared to the foreign IT publications, ITC's philosophy of localizing the content for all their new products ensured that their products stayed more relevant than their foreign counterparts, even in the new regional markets it entered. The competitive advantage of ITC helped to attract more members to its OC and allowed ITC to access a pool of previously untapped advertisers (Baum & Singh, 1994). Further, the addition of reliable revenue streams from offline advertising, new IT related products and the regional markets allowed ITC to increase its revenue despite the challenging environmental conditions. Figure 3 depicts how ITC's OC was used in the Product/ Market Development phase to improve the organizational performance of ITC.

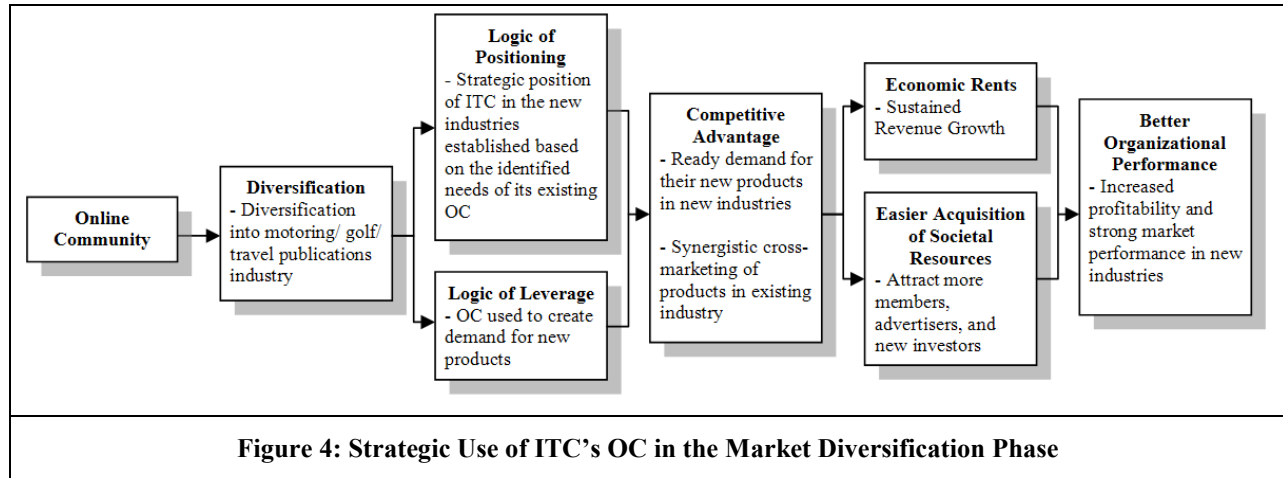


### *Diversification Phase (Early 2005 – Present)*

In the diversification phase, ITC's OC was used to support its entry into the motoring, golf and travel publications industry and facilitate its positioning as a comprehensive provider of localized content in the respective industries. This enabled the creation of competitive advantage through two mechanisms. First, the OC supported a logic of positioning in that the strategic position adopted by ITC in the new industries was based on an analysis of the complementary demands of its existing OC. The decision to position themselves as a comprehensive provider of localized content in the motoring, golf and travel publication industries was based on the profile of the majority of their existing members: Young, well-off, male professionals. Second, the OC was used to facilitate a logic of leverage in that the members of the OC were used once again as a strategic resource (Barney, 1991) to create a ready demand for their new products. Promotional activities such as advertisements, links to the newly created websites and product bundling were evident in the existing OC in an attempt to fulfill what the management of ITC perceived to be the unmet needs of its community members.

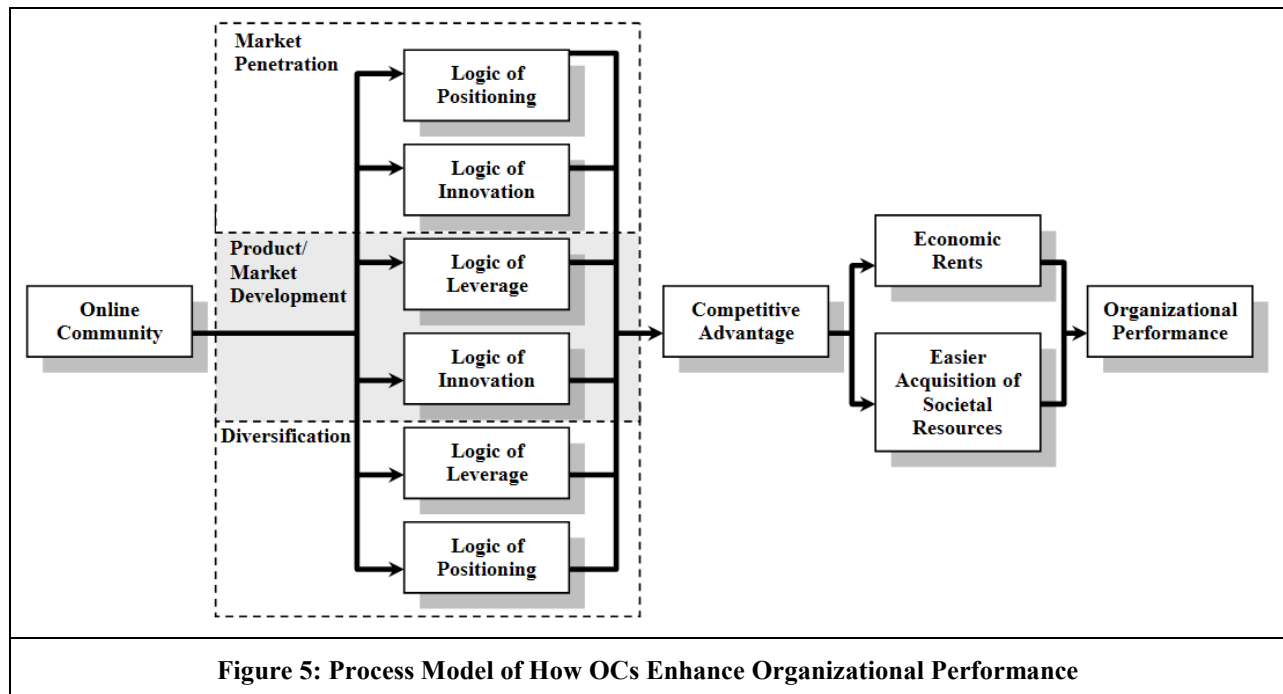
By facilitating the two logics of strategy, competitive advantage was achieved in the diversification phase over its key competitors. Relative to its existing competitors in the IT publications industry, as the new products catered to the needs of its existing customers, it allowed for cross-marketing, which brought about synergistic benefits between the various lines of business. In addition, as compared to the competitors from the new industries that ITC was entering, the products in the new markets came with a ready-made demand, and because the new products catered to the same demographic segment that ITC had a strong reputation in, ITC was able develop complementarities between their different products that were mutually reinforcing, which made the cross-selling of products much easier. The enhanced organizational performance as a result of its competitive advantage was evident in the sustained growth of its advertising revenue and its membership figures. ITC's unique value proposition also allowed

the organization to attract advertisers from the new markets it entered, and made the organization highly attractive to potential investors, which culminated in the acquisition of ITC in 2006. Figure 4 illustrates how the OC was used strategically to create competitive advantage for ITC during the diversification phase.



### *How do OCs enhance the Organizational Performance of the Sponsoring Organization?*

By integrating the different patterns of how the OC was used to effect performance gains at ITC across the three different phases, a process model (refer to Figure 5) depicting the underlying mechanisms through which OCs enhance the organizational performance of their sponsoring organizations emerge. Contingent upon the product/market alternative (Ansoff, 1958) that the organization is pursuing, an OC may be used in three different ways to create competitive advantage and bring about organizational rewards for the sponsoring organization.



First, when the organization is pursuing market penetration, an OC may be used to facilitate the logic of positioning and the logic of innovation to create competitive advantage for the sponsoring organization. The OC may be used to identify an attractive strategic position, defend the strategic position adopted from existing and potential competitors, and serve as a feedback channel that allows the organization to rapidly innovate to cater to the evolving needs of its target customers. Conversely, the logic of leverage is less likely to be salient during market penetration. One likely explanation for this is that market penetration strategies are typically pursued when the product of an

organization is in the early stages of its product lifecycle (Anderson & Zeithaml, 1984). Consequently, if an OC is centered on an organization's products, its development would likely mirror product maturity, and the OC may not have attained critical mass or be sufficiently mature to be leveraged effectively at this stage.

Second, when the organization is pursuing product or market development, an OC may be used to support the logic of leverage and the logic of innovation to bring about organizational rewards for the sponsoring organization. The OC may be utilized as a strategic resource (Barney, 1991) to create a ready demand for the new products added to the firm's product line in the existing market or for the existing product in the new markets. In addition, the OC may form the basis of a rapid sense-and-response capability (Lengnick-Hall & Wolff, 1999) that provides the sponsoring organization with directions on product innovations and the opportunities in new markets that the organization can expand into.

On the other hand, the logic of positioning may be less important in both product and market development. Findings in prior marketing research have asserted that product development is likely to be more successful if the new product leverages on an established parent product (Reddy et al., 1994). This implies that an organization will likely be more successful if it adopts the same strategic position for the new product as it strengthens the perceived association with the established parent product, making effective leverage more likely. Similarly, existing perspectives on globalization have asserted that geographic expansion requires high levels of managerial attention and firm resources (Wiesema & Bowen, 2008), and because both regionalization and strategic re-positioning requires high levels of resources and managerial control, the simultaneous enactment of both may put considerable strain on the organization, making the success of either initiative less likely.

Finally, when the organization is pursuing diversification, an OC may be used to support the strategic logics of leverage and positioning to enhance the performance of the sponsoring organization. Once again, the OC may be leveraged as a strategic resource to heighten the demand for their new products in the different markets. Additionally, the OC can provide indications on how its sponsoring organization should position itself upon entry into the new markets. On the contrary, the logic of innovation is likely to be less salient during diversification, especially when the organization is diversifying into established industries as in the case of ITC. Prior studies on market entry have indicated that late entrants tend to focus less on innovation (Robinson and Chiang, 2002), and more on competing based on a strategic position attained through the application of its existing resources (Shamsie et al., 2004). While there are exceptions to every rule, it is reasonable to expect that most organizations will not pursue innovation aggressively prior to establishing the vision, the tactics and the capabilities for causing disruptions in the industry it enters (Lengnick-Hall & Wolff, 1999).

Through the different mechanisms across the different contextual conditions, an OC facilitates the attainment of competitive advantage, which translates to economic rents (Deephouse, 1999), the easier acquisition of societal resources (Baum & Singh, 1994), and consequently, improve the financial and market performance of the sponsoring organization

## **CONCLUSION**

### ***Limitations and Future Research***

This article is not without its limitations. A particular criticism that is commonly directed at the case research methodology is the problem of generalizability (Walsham, 2006), and our study is confined to a single form of online community (i.e. a community of interest), sponsored by a specific type of organization (i.e. a small e-commerce startup), operating in a specific industry within a specific country (i.e. the IT Publications industry in Singapore). While it must be readily acknowledged that statistical generalization is impossible from a single case study, generalizations can take the form of concepts, theories, specific implications or rich insights (Walsham, 1995, 2006), and it is possible to generalize non-statistically from case description to theory, as in the case of this article, within a single case study (Lee and Baskerville, 2003; Walsham, 2006). Nevertheless, future research can be directed at statistically validating propositions of this study, so that the boundary conditions of the proposed theory can be better defined.

A second limitation is that despite our efforts to be as inclusive as possible, we acknowledge that it is impossible to exhaustively describe all the possible ways through which OCs may lead to better organizational performance within a single study. While we are bounded by feasibility concerns and the limits of the data collected, future research can

certainly investigate other possible mechanisms that have not been examined in this study. One might begin by looking beyond the field of strategic management, to theories from other academic disciplines that offer competing prescriptions for improving organizational performance. Candidate theories, for example, may include the neo-institutional theory of organizations (Scott, 2001) and the theory of organizational ecology from the field of organizational sociology (Hannan & Freeman, 1977) that advocate isomorphism, rather than competitive advantage, as the key to better performance.

### ***Theoretical and Practical Implications***

By addressing the research question set forth at the beginning of this paper, this study makes several important theoretical contributions. First, in prior research on the phenomenon of OC success, most of the studies have used factors related to participation or OC size (see, e.g., Ma & Agarwal, 2007; Rothaermel & Sugiyama, 2001) as proxies for commercial success due to the inherent difficulties of attributing performance gains to an OC (Lee et al., 2005). Adopting a case study approach that allowed us to get closer to theoretical constructs that are difficult to measure (Siggelkow, 2007), this study contributes to the existing body of knowledge by examining the effects of an OC on the organizational performance construct directly. The intricate interconnectedness of the events, activities and decisions that led to better organizational performance in the case study helped to eliminate a myriad of possible competing explanations for the performance gains, which ensures the relevance and utility of the theoretical arguments developed in this paper.

Second, this study complements the existing technology-oriented studies (e.g., Leimeister, et al., 2005; Preece, 2001) by examining the means of achieving OC success from a novel strategic perspective. In emphasizing the importance of technology-strategy alignment in the context of OCs, this article argues for a thorough consideration of business objectives in future technology-oriented studies, and asserts the need to look beyond a monolithic set of desirable technical qualities to specific technical qualities of OCs that are most appropriate for facilitating particular business strategies. In addition, by examining how OCs may support the business objectives of an organization, this article may serve as a catalyst for more business-oriented research seeking to identify ways of applying OCs to a wider array of business objectives. In itself and in its implications for future research, this article contributes to a more balanced view of the phenomenon, so that clarity and theoretical advancement may be achieved.

Third, this article represents an attempt at formulating an empirically supported theory that offers prescriptions for enhancing organizational performance through the use of OCs. The process model developed in this article advances the state of existing knowledge in that it not only provides strong evidence of the causal relationships involved, but it also traces the process in its entirety; from the initial cultivation of the OC, through the formation of competitive advantage, and finally, to the attainment of better organizational performance.

Finally, this study also makes a contribution to strategic management literature by demonstrating that the core logics of strategy are not inherently incompatible. While prior studies have argued that attempts to combine incompatible logics within a single strategy will create confusion and inconsistency of purpose (Lengnick-Hall and Wolff, 1999), our process model; grounded in the empirical reality of ITC, indicates that core logics can in fact be enacted simultaneously. For example, in the market penetration phase, it was evident that a single initiative (the OC), can be used to support both the attainment and defense of a strategic position (logic of positioning), as well as the development of a dynamic capability that facilitates rapid innovations in response to evolving customer needs (logic of innovation). As such, we contend that each core logic is simply a means towards an end and if the desired end - the strategic objective - is the same for two or more core logics, then the combination of core logics is not only permissible but desirable.

For practitioners, this study is significant in that it provides a comprehensive and empirically supported framework for leveraging their investments in OCs. Given that an OC carries both opportunities and risks for the sponsoring organization (see, e.g. Preece, 2001; Walden, 2000), the process model developed in this article can serve as a detailed roadmap for practitioners to identify the potential pitfalls and “missing links” associated with leveraging an OC. In tracing the various mechanisms for improving organizational performance for all the possible product/market alternatives that an organization may be pursuing, this study should be especially useful for the majority of OC managers and practitioners who have been unable to translate their resource investments in OCs into economic returns, as it helps to identify the appropriate remedial measures to re-align their investments in OCs to the path of commercial success.



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